DOCUMENT RESUME

ED 461 164 EA 031 373

AUTHOR	DeSchryver, David A.
TITLE	Truth in Spending: The Cost of Not Educating Our Kids.
INSTITUTION	Center for Education Reform, Washington, DC.
PUB DATE	1998-06-00
NOTE	11p.
AVAILABLE FROM	Center for Education Reform, 1001 Connecticut Avenue, NW, Suite 204, Washington, DC 20036. Tel: 202-822-9000; Fax: 202-822-5077.
PUB TYPE	Information Analyses (070) -- Opinion Papers (120)
EDRS PRICE	EDRS Price MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	Access to Education; *Cost Effectiveness; Elementary Secondary Education; *Expenditure per Student; Financial Needs; *School Funds

ABSTRACT

Statistical information is given on the inadequacy of U.S. schools, including the cost of remedial classes in colleges and businesses. The relationship between money spent, including on such items as salaries and class size, and high achievement scores is shown to be uncertain. Low performance often leads to requests for more money, rather than a reform in how the money is used. Private schools are seen as a better model. Urban Catholic schools have demographic profiles similar to nearby public schools and, for less cost, obtain higher graduation rates. Districts have taken their states to court to demand equalized funding, though access to better education has not followed. Meanwhile, public schools have seen an increase in the number of administrators and educational regulations. Recent reforms are attempting to shift the control of resources to parents, requiring services that please parents and students so that the district keeps its funding. A per-pupil-based funding system, in which money would follow the child instead of the district, is now used in Arizona. Accountability is enhanced, and parents and their children become consumers. Private contractors for support services can save money. Charter schools in 33 states allow parents and children to design schools with fewer restrictions and regulations. Private companies, such as the Edison Project, can take over part or all of a school system with lower per-pupil costs and high success rates. (Contains 20 endnotes.) (RKJ)

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June 1998

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TRUTH IN SPENDING:
The Cost of Not Educating Our Kids

Show me the money is a familiar cry of late, not only for movie fans but in educational circles as well. The more U.S. achievement stagnates or declines, the louder the cry. It is an excuse, and a bad one at that, for why schools are failing.

SPENDING MORE BUT EDUCATING LESS

Education experts, business leaders and some in the media argue that the solution is not in how much is spent, but in how it is spent. Regardless of where they come from — poor inner-city districts or upper middle-class suburbs — our publicly schooled children are falling behind. The longer they remain in school the less they learn. The Third International Math and Science Study (TIMSS) shows that our nation has a serious curriculum and achievement problem.

Consider:

- As U.S. students progress through school, their international standing declines. U.S. fourth-graders scored just above the international average in both science and mathematics and eighth-graders scored above the international average in science but below it in mathematics. But by twelfth-grade, math and science and the math and physics scores of our more advanced students were well below the international average.[1]

- Math scores released in February 1998 show American seniors outperforming only two of 21 nations and finishing significantly below 14 of those countries.

- In science, the U.S. is well below 11 countries, scoring ahead of only 2.

- In all subject areas, American student test scores have remained flat. On the National Assessment of Education Progress (NAEP)[2] over one-third of all students scored "Below Basic" in all NAEP subjects: history, math, writing, reading, geography, and science.

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- Poor performance is the new SAT norm; in 1996, test results were "re-centered" to bring the average back up to 500 points, masking the approximate 80 point drop in average achievement since 1963.

Meanwhile, education spending in the U.S. (measured in constant 1994-1995 dollars) increased from $162 billion dollars in 1982 to nearly $300 billion in 1998.[3] Yet as the TIMSS and other results suggests time and again, U.S. students, compared to their international peers, fall further behind the further they get in the U.S. public school system. The result of all this spending:

- Businesses and universities must pick up the slack by spending billions in remedial classes, training, and operating losses that result from a poorly qualified work force.

- In 1995, nearly 30% of first time college freshman enrolled in at least one remedial course and 80% of all public 4 year universities offered remedial courses.[4]

- According to U.S. manufacturers, 40% of all 17 year olds do not have the math skills and 60% lack the reading skills to hold down a production job at a manufacturing company.[5] IBM alone spends over $10 billion on education and training every year. In response, the education establishment continues to attribute poor results to lack of funds and to press federal and state legislatures and taxpayers for more money, but the cry is unfounded.

The Relationship Between Spending and Achievement

Study after study has shown that there is little connection between the dollars spent and the achievement of students. For over a decade Eric Hanushek of the University of Rochester has been examining the relationship between inputs (money) and outcomes (student achievement). Overwhelmingly, studies that compared expenditures per pupil and other cost-sensitive inputs (e.g. teacher/student ratio, teacher education or experience, teacher salary, administration, or facilities) to student achievement have shown little or no correlation between the two; the only relationship found is that, since the mid 1960s, school productivity has fallen.[6] The American Legislative Exchange Council's "(ALEC) 1997 *Report Card on Education 1996* supports Hanushek's findings. After examining state by state results such as NAEP, SAT and ACT scores and graduation rates and inputs, such as spending, teacher salaries, students/teacher ratios, and student/non-teacher staff ratios for 1995-1996, ALEC found that there is no correlation between the two. Iowa, the top academically performing state, ranked 27th in expenditures per pupil, 33rd in average teacher pay and 14th in pupil/teacher ratio. Utah, ranked 7th academically, ranked 49th in expenditures per pupil, 42nd in average teacher pay, and 49th in pupil/teacher ratio.

Several state-based studies also back-up Hanushek's findings. According to a 1997 study by the James Madison Institute, *Comparing Spending and Performance in Florida's Public Schools and Colleges*, "The State of Florida spends more on education than on any other program. Yet, the experience of recent decades indicates that, without structural change, additional spending is unlikely to improve the quality of education."[7] Another 1997 study conducted by the Ohio-based Buckeye Institute, *Testing and Education Achievement: Ohio and the Nation*, found similar results. "After controlling for median income, school district and class size, property valuation, teacher salaries, student attendance rates, economic disadvantages ... and ADC rates, there appears to be a negative relationship between spending and results."[8]

Many urban district spend substantially more than the $6,600 national average of per-pupil expenditures. For example, Washington, DC spends $7,327 per students, but the drop-out rate exceeds 40%, and 72% of the city's 4th graders tested below "basic proficiency" on the 1994 NAEP math and reading tests.[9]

Kansas City, MO, spends $7,079 per student, but in one year (1993-1994) 14% of its high school students dropped out, and over a period of 4 years, 55% leave school. In the 1994 NAEP math and reading exams, over 60% of its students performed below "basic proficiency." Yet the resulting clamor from those responsible, administrators, teachers and school boards, for such performance is usually for more money – not a reform of how that money is used.

Public schools should take lessons from private schools. Many private schools are delivering substantially more education for significantly less money than the public schools. Average private school tuition in 1993-1994 was $3,116 (compared to $6,600 for public school students).[10] Other important spending data includes:

- Private school tuition averaged $2,200 for elementary schools, $5,500 for secondary schools, and $4,200 for combined-level private schools, according to the most recent comparative figures available from the U.S. Department of Education (1993-1994).
- Tuition for Catholic–parochial schools, the largest private school system, is even less. Elementary tuition averages $1,572 per year, and $3,699 at the secondary level for a total average tuition of $1,934.[11] And for tuition that's about half the average public school per-pupil cost, private schools expose their students to a more rigorous academic program and graduate a higher percentage of their students, than their public school counterparts.[12]

Some critics claim that private schools can be more effective only because they are selective and attract top-notch students (the so-called creaming myth). The evidence proves otherwise. Urban Catholic schools, with demographic student profiles similar to their neighboring public schools, apply a more rigorous academic program and typically graduate 95% of their students, while traditional public schools graduate slightly more than half with weaker academic programs.[13]

Money...Money...Money...Show Me the Money

District after district has taken their state to court to demand "equalized funding" and obtain more funds. Since 1972 over 40 cases have been heard by state Supreme Courts. The plaintiffs have won 16 times and lost 19 times; 6 cases are dormant. Yet these and other court efforts to equalize public school funding put the focus on inputs rather than outputs, and in effect ask judges to rule that more money guarantees better education. Judges, not knowledgeable about the intricate details of schools and the system, normally concede that it is a lack of money that impedes quality.

Up until May of 1998, none of the equalization efforts to date in fact resulted in access to better education, but a New Jersey State Supreme Court decision may begin to reverse that trend. Four times since 1973 the New Jersey State Supreme Court has ruled that the state does not supply its poorest cities with enough money to overcome their education woes. Three times the court has stuck to a demand for dollar-for-dollar spending parity between the state's neediest cities and its wealthiest suburbs, but the fourth may change how courts handle school funding in the future. Rejecting a lower court order to implement a broad and costly preschool program, the State Supreme Court embraced Governor Christine Todd Whitman's plan for meeting facilities' and instructional needs to arrest the spending inequities. The court said that the required spending level should not be set by the court, but driven by the needs of individual districts. "The court has finally recognized the importance of programs over funding in educating children," said Jayne O'Connor, Whitman's spokeswoman. Depending upon the developments in New Jersey, judges may resist the temptation to tie equality to financing and empower schools to implement academic programs required to resolve the real discrepancies — that of being permitted and paid to provide a sub-standard education.

Bureaucratic Bloat

As achievement in the public schools has plummeted, government and the education establishment have responded by imposing more rules and requesting more funds to implement them. In California, the state has forced public teachers and schools to comply with more than 7,000 pages of education code. As the regulations have increased, so have the number of administrators needed to oversee them, and teachers have been further removed from the fundamental decision making processes that affect their classrooms. The ratio of teachers to non-teaching staff in the public schools has decreased dramatically over the last several decades — currently teachers make up only a little more than half (52%) of all public school employees.[14] And yet even the definition of teachers used in this statistic includes non-teaching positions.

The situation created by heaping rules and regulations upon public schools is focused now almost exclusively on the fulfillment of rules, not the proliferation of excellence in education. Oftentimes the money the public is setting aside for the education of our nation's children — via taxes — is consumed by bureaucracies

before it ever gets to the classroom. Some analysts suggest that percentage of the public school budget that was devoted to instruction between 1960 and 1990 declined from 61% to 46%.[15] In 1996 the accounting firm Coopers and Lybrand published "Tracking Expenditures to the Classroom"[16] that details their finance analysis model for school expenditures. The study breaks down the dollars expended in a typical large urban school district for the 1993-1994 school year. Instruction, including classroom materials, came to 51% of the total district per pupil average. Face-to-face teaching expenses including instructional teachers, substitutes, and instructional paraprofessionals (not classroom materials) averaged 48% of large urban school expenditure. More refined, among the large urban school districts, elementary schools as a group spent the least on instruction, 48%, junior high schools were next at 50%, and high schools were the most among regular schools at 54%. Bureaucratic bloat is soaking up much of the money appropriated and allocated for the presumed purpose of improving student achievement. As more staff, more time, and more money are devoted to the non-educational oversight of the public schools, the children in the classroom lose out.

Smaller Classes — Public Relations or Panacea?

Allocating more money toward instruction is a step in the right direction, but it is a good idea that's turned on its head by proponents of smaller class size. Studies show there is little gain from size reduction. In *The Evidence on Class Size*[17] (1998), Rochester's Hanushek found that the nation's extensive experience with class size reduction has not improved academic achievement and that econometric investigations show NO relationship between class size and student performance.

Some would consider this rebuttal of conventional wisdom to be pure heresy. And yet, decades of research about what makes for an effective school is clear: learning depends more on using proven practices and having a teacher that is both in command of his/her subject matter than it does on artificially changing the numbers of bodies in a room. A small class may not benefit at all by a poorly-skilled teacher. Likewise, a large class can and often does exceed anyone's standards with a good program and great teacher. The states and federal government are in a unique position to initiate programs that promise true improvement in our schools. More usefully, they could work to develop a series of experiments that investigates the construction and implementation of alternative incentive schemes – from merit pay to private contracting to wider choice of schools.

Money is Important, but Systemic Solutions are more Important

Recent reforms have helped to recapture public education funds and put them back into classroom instruction and materials. Leading policy makers are also working to shift the control of resources to parents, making schools provide better services to parents and students if they want to keep their funding. They argue that child-centered funding provides more of an assurance of both equity and accountability.

In April 1998, Arizona passed a more student-centered finance bill that determines the capital financing of schools according to a per-pupil formula. The bill scraps the decades-old system of funding through local district bonds and takes a tremendous step toward a per-pupil based funding system in which dollars would follow the child to the school, not the district. School accountability is enhanced by putting more control shifting control into the hands of parents. This forces schools to be on their toes — and encourages them to approach students and parents as consumers. Arizona already funds operational costs by student.

One example of how this already works an be found in the reform concept known as charter schools. With charter schools most of the money from all sources goes directly to the charter school, cutting out administrative skimming along the way. The possibility now exists in 33 states and the District of Columbia for teachers and parents to design and direct schools that will best address the needs of their community, unfettered by unnecessary regulations. Fewer restrictions are placed on charters about how and where they spend the funds they receive, encouraging better programs, more innovations and efficiency across the board. For example, San Fernando Valley, CA's Vaughn Next Century Charter School is located in one of the largest and most bureaucratic districts in the nation, experienced year-long delays in basic services, such as buying a computer. Under the charter, however, Vaughn Principal Yvonne Chan had the authority to purchase computers independent of the district, which she did in just six days, for less money. She saved $1.2 million in her first year of operation. As a result, the Los Angeles Unified School District revised its purchasing system.[18] At Bowling Green Elementary, a Sacramento, California public school that went charter in September 1993, principal Dr. Dennis has been able to make other spending choices that directly benefit teachers and students. Savings achieved by trimming custodial and secretarial services have been used to reduce class sizes.

When it comes to the important issue of money, many school officials understand how important — and productive — it can be to get creative with their spending. The use of private contractors, particularly for support services, has become increasingly popular among traditional district public schools that want to reduce costs, eliminate waste, and concentrate more resources on actually educating children, and there is good reason for the popularity. The fastest growing component of overall educational costs is non-instructional. *Competitive Contracting in Ohio Public Schools*[19] by The Buckeye Institute found several reasons why school districts outsource services:

- 52% stated that cost savings were the main consideration; 40% of the respondents indicated that outsourcing afforded the opportunity to offer more services.
- A 1995 survey by *American Schools and Universities* magazine found that 66% of school districts use at least one contracted service for support operations.[20] The savings are significant. For example, in 1993, the superintendent of the Piscataway, NJ, public school district began contracting for bus and food service, saving $2 million a year.

- The Peoria Unified School District in Arizona saved about $250,000 when it first started contracting for custodial services in 1991, and enjoyed cleaner schools as a result. And public custodial services for the district, which used to cost at least 25% more, have brought their service costs within 5% of private contractors.
- Public school systems are also experimenting with contracting freelance teachers and educational services to handle both remedial and classroom teaching.

Contracting is, in some instances, another indication of the failure of schools to provide even basic services despite the amount of money they receive. Districts contract with tutoring agencies to provide extra instruction that they are unable to offer. For example, in 1993, the Sylvan Learning Center entered a partnership with the Baltimore City Public Schools. The company contracted with the school district to establish tutoring centers within six public elementary schools to provide intensive instruction to address the needs of the schools' most academically and economically disadvantaged students. The success of Sylvan's programs within these schools and the resulting increases in the students' academic achievement led to the expansion of Sylvan's programs in the Baltimore City Public Schools and across the country. Sylvan has been awarded contracts to operate Sylvan Learning Centers within public schools in several districts across the U.S., including Washington, D.C.; Chicago, IL; Newark, NJ; St. Paul, MN; Broward County, FL; Pasadena, TX, and others. Currently, Sylvan serves approximately 9,000 students within 62 public schools.

Seeking both better student services and economies of scale, some districts have gone a step further and contracted with private companies to take over part or all of a school system. The Edison Project establishes partnership schools in contract with public school districts or charter school authorities within the local community. In either case, The Edison Project takes responsibility for implementing the educational program, technology plans, and management systems, and is accountable to the local community for the performance of the school. In 1997 Edison increased its total number of schools to 25 — more than double the number it operated the previous year-and student enrollment rose from 7,100 to 13,000 nationwide. Edison now operates public schools in 8 states and 13 cities with plans to expand in the fall of 1998. Other such companies include: Advantage Schools, Beacon Educational Management, Education Development Corp., Ombudsman Alternative, SABIS International, The Leona Group, and the TesseracT Group. A number of school districts contract with private companies to provide complete educational services to at-risk students who can no longer be handled successfully within the public school system. For example, Ombudsman Education Services contracts with districts in 10 states to educate students who are in danger of dropping out of the system for academic and behavioral reasons. Ombudsman receives $3,000 to $4,000 per enrolled student - well below the average $5,000 to $8,000 per student these states spend in the public schools - yet boasts an 85% success rate with the district's most difficult students.

Over the course of the year, Ombudsman enrolls over 4,000 at-risk students from more than 100 school districts.

In addition to serving this niche market Ombudsman also opened its first charter school in 1996 to serve at-risk students that previously dropped out of school. Along with an 82% retention rate, the charter is making academic progress with the students. During an average enrollment of 5.87 months, the students increased an average of 1.52 grade levels in vocabulary and 2.32 grade levels in math. Nationwide, roughly a dozen private firms are operating 10% of the existing 784 charter schools operating in 23 states and the District of Columbia. They make up one of the fastest-growing sectors of an estimated $310 billion public K-12 education market. Private firms are operating charter schools in Arizona, California, Colorado, Michigan, Minnesota, Massachusetts, and North Carolina, Illinois, New Jersey, and Pennsylvania, and the District of Columbia.

Conclusion

Billions of dollars continue to be wasted, absorbed by layers of administration and countless regulations that serve only to stifle dynamic innovation and school-level reform. Meanwhile, calls for more money are all too well received in the face of well-documented evidence that money alone can't buy educational excellence. Throwing good new funds after bad, misspent funds is bad policy. And while many systems are inequitable the fault — and source of rectifying this lies with who controls the purse strings.

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For additonal information on school spending and other educational issues call The Center for Educaational Reform at (202) 822-9000.

[1] *Center for Education Reform and Empower America: Achievement in the United States Since a Nation at Risk?* (Washington, DC: United States Department of Education, National Center for Education Statistics, April 3, 1998). http://nces.ed.gov

[2] Currently, NAEP is conducted every other year in even-numbered years. In 1988, NAEP assessed student performance in reading, writing, civics, and U.S. history and conducted a small special interest assessment in geography; in 1990, reading, mathematics, writing, and science, were assessed; in 1992, reading, mathematics, and writing were assessed; and in 1994, reading, U.S. history, and world geography were assessed. NAEP has been designed to produce a representative sample at the national level.

[3] *Projection of Education Statistics to 2007* (Washington, DC: United States Department of Education, National Center for Education Statistics, 1997), table 34.

[4] David W. Breneman, "Remediation in Higher Education: Its Extent and Costs," in *Brookings Papers on Education Policy 1998* (Washington, DC: The Brookings Institute, 1998).

[5] *Education and Training for America's Future* (Washington, DC: National Association of Manufacturers, January 1998).

[6] Eric Hanushek, "The Productivity Collapse in Schools," *Developments in School Finance* (Washington, DC:United States Department of Education, National Center for Education Statistics, 1996).

[7] James D. Gwartney, Lora Holcombe, J. Stanley Marshall, et al. "Comparing Spending and Performance in Florida's Public Schools and Colleges," The James Madison Institute, Policy Report No. 22, June 1997.

[8] "School Spending not Related to Student Performance," The Buckeye Institute, Policy Notes, March 1998.

[9] "How Congress can Help Poor Children Learn in DC Schools," The Heritage Foundation, Exectutive Memorandum, No. 483, June 3, 1997.

[10] *Public And Private Schools: How Do They Differ?* (Washington, DC: United States Department of Education, The National Center for Education Statistics, July 1997).

[11] *Private Schools in the United States: A Statistical Profile, 1993-94* (Washington, DC: United States Department of Education, The National Center for Education Statistics, July 1997).

[12] *Public And Private Schools: How Do They Differ?*

[13] "Why Catholic Schools Spell Success for America's Inner-City Children," The Heritage Foundation, Backgrounder, No. 1128, June 30, 1997.

[14] *Digest of Education Statistics 1997* (Washington, DC: United States Department of Education, National Center for Education Statistics, January 1998), table 85, "Staff and teachers in public elementary and secondary schools, by state: Fall 1989 to fall 1995."

[15] *Prospects for Reform: The State of American Education and the Federal Role* (Washington, DC: Senate Budget Committee Task Force on Education, 1998).

[16] Sheree T. Speakman, Dr. Bruce Cooper, Hunt Holsomback, et al., "Tracking Expenditure to the Classroom," *School Business Affairs*, February 1996, Vol. 62, No. 2.

[17] Eric Hanushek, *Evidence on Class Size* (Rochester: University of Rochester, January 1998).

[18] Chester Finn, Jr., Gregg Vanourek, Bruno Manno, Louann Bierlein *Charter Schools In Action Project*, Part IV (Washington, D.C.: The Hudson Institute, July 1997), http://www.edexcellence.net/chart/chart5.htm

[19] *Competitive Contracting in Ohio Public Schools* (Dayton: The Buckeye Institute, April 1996).

[20] Paul Abramson, "The Vending Machine," *American School & University*, September 1993, p. 44.